

January 8, 2013

As you may have already heard, the foreboding “Fiscal Cliff” was narrowly avoided recently with the passing of legislation on January 1, 2013. The legislation, titled the American Taxpayer Relief Act, allows Bush-era tax rates to sunset for individuals in the top tax brackets; permanently patches the alternative minimum tax (AMT); revives expired or expiring tax extenders; provides for a maximum estate tax of 40 percent with a \$5 million exclusion; and delays sequestration. Below, we outline some of the most influential changes brought about by this federal legislation. Details can be found online on the [CCH website](#).

For Individuals

Individual Income Tax Rates

The lowered Bush Era income tax rates will be carried forward for all individuals, with the exception of taxpayers with taxable income above \$400,000 (\$450,000 for married taxpayers or \$425,000 for heads of households), who will be taxed at a 39.6 percent rate.

Dividends and Capital Gains

Taxpayers in the 39.6 percent tax bracket will be subject to a higher dividends and capital gains tax rate of 20 percent, up from 15 percent. All other taxpayers will continue to pay a maximum rate of 15 percent. A zero percent rate will apply to all capital gains and dividends for taxpayers below the 15 percent income tax bracket.

Marriage Penalty Relief

The Economic Growth and Tax Relief Reconciliation Act’s (EGTRRA) increased basic standard deductions for married couples filing jointly, will be extended.

Permanent Alternative Minimum Tax (AMT) Relief

A permanent AMT patch, adjusted for inflation, will be retroactive to 2012. Without this relief, taxpayers would have been limited to the previous exclusion amount of \$33,750 for single taxpayers and \$45,000 for married taxpayers. The act increases this amount to \$50,600 for single taxpayers and \$78,750 for married taxpayers.

Pease Limitation

The “Pease” limitation on itemized deductions will be revived. The Pease limitation trims the deductibility of most itemized deductions by the lesser of three percent of adjusted gross income above a specified threshold or 80 percent of a person’s itemized deductions. The limit would apply to individual taxpayers with income of more than \$250,000 and couples with income of \$300,000 or more. Although most itemized deductions are affected, the provision exempts deductions for medical expenses, investment interest, and casualty losses.

Personal Exemption Phase-Out

The personal exemption phase-out will be reinstated, but with slightly higher AGI starting thresholds (adjusted for inflation): \$300,000 for married filing jointly, \$275,000 for head of household, and \$250,000 for single.

Federal Estate, Gift, and Generation-Skipping Transfer (GST) Taxes

Federal estate tax rates will be permanently set at 40 percent with an annually (inflation) adjusted \$5 million exclusion for estates of decedents dying after December 31, 2012. "Portability" between spouses will be extended permanently. Deductions for state estate taxes will be extended. A number of other provisions affecting conservation easements, qualified family-owned business easements, the installment payment of estate tax for closely-held businesses, and repeal of the 5 percent surtax on estates larger than \$10 million have also been extended. A 40 percent tax rate and unified estate and gift tax exemption of \$5 million (inflation adjusted) for gifts made after 2012 has been provided for. A number of GST tax-related provisions are also extended.

State and Local Sales Tax Deductions

The election to claim an itemized deduction for state and local general sales taxes in lieu of state and local income taxes has been extended through 2013.

Child Tax Credit

The \$1,000 child tax credit will be extended permanently.

Earned Income Credit

Enhancements to the earned income credit (EIC) will be extended through 2017. These enhancements include a simplified definition of earned income, reform of the relationship test and modification of the tie breaking rule.

Adoption Credit

Bush-era enhancements to the adoption credit and the income exclusion for employer-paid or reimbursed adoption expenses up to \$10,000 will be extended permanently.

Child and Dependent Care Credit

The current 35 percent credit rate and \$3,000 cap on expenses for one qualifying individual and the \$6,000 cap on expenses for two or more qualifying individuals will be extended permanently.

Employer-Provided Child Care Credit

Credit for employer-provided child care facilities and services will permanently be extended.

American Opportunity Tax Credit

The American Opportunity Tax Credit (AOTC), an enhanced version of the HOPE education credit, will be extended through 2017.

Education Incentives

A number of enhancements to tax incentives designed to promote education have been extended, including:

- Deduction for qualified tuition and related expenses (extended through 12/31/2013)
- Suspension of the 60-month rule for the \$2,500 above-the-line student loan interest deduction (permanently extended)
- Enhancements to the Coverdell Education savings accounts (permanently extended)
- Exclusion from income and employment taxes of employer-provided education expenses up to \$5,250 (permanently extended)

Other Individual Tax Extenders

A variety of other individual tax extenders have been extended either through 2013 or permanently. [Read the CCH Legislation Update, page 8, for details.](#)

For Businesses

Code Sec. 179 Small Business Expensing

The enhanced Code Sec. 179 small business expensing will be extended through 2013. The dollar limit for 2012 and 2013 is \$500,000 with a \$2 million investment limit. The rule allowing off-the-shelf computer software is also extended.

Bonus Depreciation

50 percent bonus depreciation will be extended through 2013. Some transportation and longer period production property is eligible for 50 percent bonus depreciation through 2014.

Research Tax Credit

The Code Sec. 41 research tax credit will be extended through 2013.

Work Opportunity Tax Credit (WOTC)

The WOTC, which rewards employers that hire individuals from targeted groups with a tax credit, will be extended through 2013.

Qualified Leasehold/Retail Improvements, Restaurant Property

The 15-year recovery period for qualified leasehold improvements, qualified retail improvements, and qualified restaurant property will be extended through 2013.

Other Business Tax Extenders

A variety of other business tax extenders have been extended through 2013. [Read the CCH Legislation Update, page 10, for details.](#)

Energy Incentives

For Individuals

The Code Sec. 25C credit, available to individuals who make energy efficiency improvements to their existing residence, has been extended at the \$500 credit limit level through December 31, 2013.

Renewable Resources

The Sec. 45 production tax credit for facilities that produce energy from wind facilities has been extended through 2013.

Other Energy Tax Incentives

A variety of other energy incentives have been extended through 2013. [Read the CCH Legislation Update, page 10, for details.](#)

To find out more about how the American Taxpayer Relief Act could affect your financial future, please contact our office at (209) 572-4220 or ContactUs@gccpas.net. We will be happy to assist you.

